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DE RUEHIN #1989/01 2411053
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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 6589
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3804
RUEHBJ/AMEMBASSY BEIJING 7186
RUEHUL/AMEMBASSY SEOUL 8859
RUEHGP/AMEMBASSY SINGAPORE 6982
RUEHKO/AMEMBASSY TOKYO 9025
RUEHML/AMEMBASSY MANILA 0133
RUEHJA/AMEMBASSY JAKARTA 4124
RUEHKL/AMEMBASSY KUALA LUMPUR 3804
RUEHHI/AMEMBASSY HANOI 3378
RUEHBY/AMEMBASSY CANBERRA 4584
RUEHWL/AMEMBASSY WELLINGTON 1858
RUEHHK/AMCONSUL HONG KONG 8442
RUEHGH/AMCONSUL SHANGHAI 1317
RUEHGZ/AMCONSUL GUANGZHOU 0502

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SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH AND STRATFORD
USDOC FOR 3132/USFCS/OIO/EAP
TREASURY FOR OASIA/TTYANG
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, SAN FRANCISCO FRB/TERESA CURRAN, AND NEW YORK FRB MARI
BOLIS

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Taiwan - Another Insolvent Bank Under Receivership

REF: (A) TAIPEI 1270, (B) TAIPEI 1324

11. SUMMARY: Bowa Bank has been put under receivership. After the announcement on August 10, a run on the bank by the depositors required the infusion of additional funds, but the run did not spread to other problem banks. The Central Deposit Insurance Corporation (CDIC) plans to auction the bank within four to six months and plans to dispose of two other banks in receivership in October. Unfortunately the CDIC does not have the money to make this happen. END SUMMARY.

Bowa Bank under Receivership

12. On August 10, the Financial Supervisory Commission (FSC) instructed the CDIC to put Bowa Bank under receivership. The bank's net worth stood at minus NT\$24.7 billion (US\$748 million). With the CDIC workforce already stretched thin managing other banks already under receivership, the FSC permitted the CDIC to contract the state-owned Land Bank of Taiwan (LBT) to manage and operate Bowa Bank.

13. Bowa Bank is one of seven insolvent Taiwan banks placed under surveillance in July 2005. Including Bowa, five of these seven banks have been placed under receivership. Two have already been disposed of and three, including Bowa, are scheduled for disposition in the next few months.

Bank Run

14. As with the other banks currently under receivership, the FSC has announced that it will guarantee 100% of all deposits with Bowa Bank, even though Taiwan law guarantees protection up to NT\$1.5 million (US\$45,455) per depositor. (Note. The 100% deposit

protection is available for the seven banks put under surveillance in July 2005. End Note.) Nonetheless, withdrawals from Bowa Bank on the first working day after the takeover shot up to NT\$3 billion (US\$91 million), ten times the amount in a normal business day. In response, the LBT moved NT\$10 billion (US\$303 million) to Bowa Bank to calm depositor concerns and meet the needs of any further withdrawals. Taiwan's central bank has also assured depositors that their funds are safe.

15. Bank runs have not spread to the other two insolvent banks still under FSC surveillance. Net withdrawals from ChinFon Commercial Bank on August 13, for example, amounted to only NT\$20 million (US\$606,000), according to the FSC.

Planned Auction

16. The CDIC plans to auction off Bowa Bank in four to six months. The CDIC has auctioned off two of the other four insolvent banks put under receivership, including Enterprise Bank of Hualien (EBH) to China Trust Commercial Bank (CTCB) (ref A) and Taitung Business Bank (TBB) to ABN AMRO (ref B). Compensation paid to these two bid winners totaled NT\$11.4 billion (US\$345 million), reducing Taiwan's resolution funds to NT\$40.4 billion (US\$1.2 billion).

COMMENT

17. Putting Bowa into receivership brings Taiwan one step closer to resolving the problems of its troubled banks. The question remains, however, where Taiwan will get the money to finish the job. In October the CDIC is scheduled to auction two other banks - Chinese

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Bank and China United Trust and Investment - which were put into receivership back in January. The CDIC does not have the money to dispose of all of them. This means that it will need to delay the auctions or reach some kind of deal with a state-owned institution to take on the distressed assets. No additional infusion of funds is expected from the Executive Yuan.

WANG